

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

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FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 7927

INFO AMCONSUL BRISBANE

AMCONSUL MELBOURNE

AMCONSUL PERTH

AMCONSUL SYDNEY

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

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E.O. 11652: N/A

TAGS: EALR, EGEN, EMIN, AS

SUBJ: AUSTRALIAN PETROLEUM EXPLORATION ASSOCIATION (APEA)

CONFERENCE APRIL 4-7 1976

1. SUMMARY: CONFERENCE PARTICIPANTS ARE PESSIMISTIC THAT INCREASED ACTIVITY IN THE PETROLEUM INDUSTRY CAN TAKE PLACE UNDER PRESENT GOA POLICIES AND ARE CALLING ON THE GOA TO PROVIDE INVESTMENT INCENTIVES FOR PETROLEUM EXPLORATION AND DEVELOPMENT ACTIVITIES. EMBASSY ASSESSMENT IS THAT WHILE GOA RECOGNIZES NEED FOR INVESTMENT INCENTIVES FOR THE PETROLEUM INDUSTRY, CURRENT BUDGET DEFICIT PRECLUDES ANY FINANCIAL CONCESSIONS AT THIS TIME. GOA WANTS TO WORK CLOSELY WITH INDUSTRY TO PROMOTE INCREASED ACTIVITY SHORT OF PURSUING A POLICY THAT WOULD PUT A DRAIN ON THE TREASURY IN THE SHORT

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RUN. END SUMMARY.

2. FOUR HUNDRED DELEGATES FROM ALL OVER THE WORLD ATTEND THE ANNUAL APEA CONFERENCE IN ADELAIDE. GENERALLY, THE MOOD OF AUSTRALIAN INDUSTRY DELEGATES WAS ONE OF DISSATISFACTION WITH THE CURRENT GOA BECAUSE OF ITS APPARENT LACK OF POLICY TO BENEFIT PETROLEUM INDUSTRY. THE PETROLEUM AND ASSOCIATED SERVICING INDUSTRIES ARE CURRENTLY IN A DEPRESSED STATE BECAUSE OF THE DOWNTURN IN EXPLORATION ACTIVITY. EMBOFF WHO ATTENDED CONFERENCE WAS TOLD THAT NO MORE THAN 10-12 EXPLORATORY HOLES WILL BE DRILLED IN AUSTRALIA IN 1976, COMPARED TO THE EARLY 1970'S WHEN A PEAK OF SOME 70 EXPLORATORY HOLES PER YEAR WAS REACHED. CURRENTLY THERE IS ONLY ONE OFFSHORE RIG OPERATING IN AUSTRALIA. IT APPEARS THAT 1976 WILL BE THE WORST YEAR FOR THE PETROLEUM INDUSTRY RELATIVE TO EXPLORATORY ACTIVITY.

3. THE INDUSTRY IS CURRENTLY PLAGUED BY: A) A SHORTAGE OF RISK CAPITAL AND EXPLORATION EQUIPMENT AND MANPOWER; (B) A LACK OF FINANCIAL EXPLORATION INCENTIVES IN THE FORM OF TAX CONCESSIONS; AND C) LOW CRUDE OIL PRICES IN AUSTRALIA. INDUSTRY SPOESMEN STATED THAT THE 1975 CRUDE OIL PRICE INCREASES DID NOT COVER INCREASED COSTS FOR DEVELOPING AND THOROUGHLY EXPLOITING KNOWN PETROLEUM DEPOSITS. AS RESULT, INDUSTRY IS ASKING THE GOA TO: A) ANNOUNCE TAX CONCESSIONS FOR EXPLORATORY COSTS; B) RELAX AUSTRALIAN EQUITY REQUIREMENTS IN PETROLEUM DEVELOPMENT AND PRODUCTION VENTURES TO ENABLE INDUSTRY TO SEEK FOREIGN CAPITAL INVESTMENT TO OFFSET THE SHORTAGE OF AUSTRALIAN RISK CAPITAL; C) INSURE INDUSTRY ADEQUATE PROFITS COMMENSURATE WITH THE HIGH RISKS TAKEN IN EXPLORATION ACTIVITIES; AND D) CONDUCT AN INQUIRY INTO CRUDE OIL PRICING POLICIES IN HOPES OF RECEIVING HIGHER OIL PRICES.

4. MINISTER FOR NATIONAL RESOURCES ANTHONY STATED IN HIS APEA ADDRESS THAT: A) INDUSTRY- GOA COOPERATION SHOULD BE FOSTERED; B) GOA UNLIKELY TO REINTRODUCE OIL EXPLORATION SUBSIDIES, AT LEAST IN NEAR FUTURE; C) THERE WILL BE NO REMOVAL IN THE NEAR FUTURE OF THE \$A2 PER BARREL EXCISE ON CRUDE OIL PRODUCTION; D) CURRENT CRUDE OIL PRICING POLICY SHOULD CONTINUE TO BOOST EXPLORATION ACTIVITY; E) THERE WILL BE AN INDEPENDENT INQUIRY ON EXISTING CRUDE OIL PRICING LIMITED OFFICIAL USE

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POLICIES; F) AS A GENERAL RULE, FARM-IN PROPOSALS WILL BE WELCOMED; G) THERE WILL BE NO RESTRICTION ON FOREIGN EQUITY PARTICIPATION IN EXPLORATORY ACTIVITIES; H) AUSTRALIANS MUST BE OFFERED 50 PERCENT EQUITY IN THE DEVELOPMENTAL AND PRODUCTION STAGES OF THE PETROLEUM INDUSTRY; AND I) THE FOREIGN INVESTMENT BOARD CAN RECOMMEND INCREASED PERCENTAGE OF FOREIGN INVESTMENT IN PETROLEUM VENTURES.

5. COMMENT: EVEN IF THE GOA SHOULD ANNOUNCE A POLICY TO PROMOTE INCREASED ACTIVITY IN THE PETROLEUM INDUSTRY, A RETURN TO PREVIOUS LEVELS OF ACTIVITY IN NEAR FUTURE IS DOUBTFUL BECAUSE OF THE LACK OF EXPLORATION EQUIPMENT AND MANPOWER. PETROLEUM EXPLORATION AND DEVELOPMENT COMPANIES HAVE LEFT AUSTRALIA AND ARE COMMITTED ELSEWHERE. (FOR EXAMPLE, MANY FORMER OPERATORS IN AUSTRALIA ARE NOW HEAD-QUARTERED IN SINGAPORE.) EMBOFF ALSO WAS TOLD THAT THE PROSPECTS FOR NEW ONSHORE OIL FINDS IN AUSTRALIA ARE DISMAL. THERE IS NATURAL GAS ON THE NORTH WEST SHELF, BUT IT IS GOING TO BE EXPENSIVE TO PRODUCE AND MARKET. PROSPECTS FOR NEW GAS DEPOSITS ARE ALSO GOOD ON THE EXMOUTH PLATEAU AND BONAPARTE GULF, BUT SOME OF THESE OPERATIONS WOULD BE IN DEEP WATER APPROACHING THE LIMITS OF CURRENT RECOVERY TECHNOLOGY.

6. GOA REALIZES THAT INCREASED ACTIVITY IN THE PETROLEUM INDUSTRY MUST BE FOSTERED. HOWEVER, BECAUSE OF THE CURRENT BUDGETARY DEFICIT, IT IS UNLIKELY TO TAKE ANY ACTION WHICH DECREASES GOA REVENUE. INDUSTRY SPOKESMEN COUNTER THE GOA POSITION BY STATING THAT REVENUE FROM NEW OIL AND GAS FIELDS WOULD BRING A RETURN MUCH LARGER THAN THE REVENUE LOSS TO THE GOA THROUGH THE IMPLEMENTATION OF TAX AND INVESTMENT INCENTIVES. INDUSTRY OPTIMISM MUST BE VIEWED CRITICALLY BECAUSE OF THE FACT THERE MAY NOT BE MUCH MORE OIL AND GAS IN AUSTRALIA. END COMMENT.
HARGROVE

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